Attachment no. 2
to current report no. 19/2021 of Dekpol S.A.
- correction of points 8 - 10 to Introduction to the consolidated financial statement of Dekpol S.A. for the period from 1st of January 2019 to 31st of December 2019 published on 16th of May 2020 (pages 13 – 32)

I. Content before correction 1

8. Rules for the valuation of assets and liabilities 1

9. Financial risk management 17

10. Important assessments and judgements 18

II. Content after correction 19

8. Rules for valuation of assets and liabilities and financial results, adopted in preparation of financial statement 19

9. Financial risk management 33

10. Important assessments and judgements 35

I. Content before correction

8. Rules for the valuation of assets and liabilities

Whenever the Company is indicated below, it applies to the whole DEKPOL S.A. Capital Group

Property, plant and equipment

- *Principles of evaluation of property, plant and equipment are mainly included in MSR 16 "Property, plant and equipment".*
- *Property, plant and equipment are subject to initial recognition at the acquisition price or production cost.*
- *The acquisition price or production costs are subject to an increase by costs of disassembly and removal of an item of property, plant and equipment and renovation of the place of using it, if the Company is obliged to do so.*
- *The acquisition price or production costs are not subject to adjustment by foreign exchange differences related to liabilities financing the acquisition of an asset accrued up to the date of putting an asset into use, unless it results from the policy adopted in the scope of hedge accounting.*
- *The acquisition price or production costs are subject to an increase by costs of interest on liabilities financing the acquisition of an asset accrued up to the date on which an asset is ready for use.*

- *After the initial recognition, the Company evaluates property, plant and equipment at the acquisition price or production cost less depreciation write-offs, pursuant to the model specified in § 30 MSR 16.*
- *With regard to each item of property, plant and equipment, the Company determines a period of economic useful life. If it is justified in relation to significant component parts of property, plant and equipment to apply various periods of economic useful life and depreciation rates/methods, the Company applies various depreciation rates/methods in relation to each significant component part of property, plant and equipment.*
- *Property, plant and equipment are subject to depreciation in a period of economic useful life from the day on which an asset is ready for use until the date on which it is excluded from recognition or it is intended for sale.*
- *The Company accepts that the final (residual) value of used property, plant and equipment is usually insignificant and will not be determined, unless the residual value is significant in relation to a given item of property, plant and equipment. The residual value constituting at least 20.0% of the initial value of an item of property, plant and equipment is deemed significant.*
- *The Entity applies a straight-line deprecation method of property, plant and equipment, unless other methods (degressive method, method based on production units) better reflect the consumption of economic benefits. The Company may apply other methods and rates in order to establish tax income.*
- *A depreciation period, depreciation method and residual value (if determined) are subject to periodic verification at least at the end of each financial year. If a significant change is found as compared to previous estimates, the entity changes amortization rates and/or method starting from the first day of the reporting period.*
- *Property, plant and equipment of the initial value not exceeding PLN 3,500.00 are written off in the month in which they are put into use. And are recognized exclusively in off-balance sheet records and are charged as a single entry to costs of "purchase of tools and equipment" recorded on account 411-09.*
- *Costs of improvement of property, plant and equipment increase their initial value, provided that improvement consists in extending a period of economic useful life or improving parameters of property, plant and equipment measured by means of costs of operation, productivity, quality of manufactured products or scope of functionality*
- *Costs of current renovations and inspections of property, plant and equipment are recognized as costs of the period in which they are incurred, unless they result in extending a period of economic useful life as compared to the initially assumed period.*
- *If property, plant and equipment are excluded from use, the Company does not discontinue depreciation, unless an item of property, plant and equipment is held for sale within 12 months. In such a case, property, plant and equipment are evaluated at the initial value less revaluation write-offs or at the fair value less selling costs, whichever is lower, and are not subject to depreciation - according to MSSF 5 "Non-Current Assets Held for Sale and Discontinued Operations".*

Lease

- *The Company recognizes and evaluates leased assets pursuant to MSSF 16 „Leasing".*
  - *The Company classifies assets as being the subject matter of financing or operating lease agreements on the basis of the criteria specified in §26 MSSF 16) and value of the right of use of leased thing (according to §§24-25 MSSF 16).*
  - *The right to use of an asset is valued according to §§30-33 MSSF 16, except investment properties, valued at fair value.*
  - *The company uses discounted value of debts divided in to long and short term debts. The value of debt is updated if lease period is changed or if prediction of buying out abilities will change (updated according to discount rate) or if the lease charges will change due to other than rate changes (updated with no changes to discount rate). The difference in value is written according to changes in right to use value changes.*
  - *Assets which are the subject matter of a financing lease have to be disclosed as user's assets; assets which are the subject matter of an operating lease have to be disclosed as lessor's assets. Information required by MSSF 16 are revealed in additional explanatory notes.*
  - *Company uses exemptions specified in MSSF 16, which means that it does not follow the regulations mentioned in §§22-49 MSSF 16 (which means that it does not reveal the rights to use and commitments in accordance to MSSF 16 for lessees, it only reveals ongoing lease cost) concerning:*
    - short term lease agreements (less than 1 year)
    - where lease value does not exceed 4.000,00 PLN.
  - *If the Company performs a leaseback transaction, it qualifies lease as operating lease or financial lease in accordance to §63 MSSF 16.*
  - *In case of operating lease the Company recognizes asset as financial asset and it recognizes provided incomes with linear method during the lease duration).*
  - *In case of financial leasing, the Group recognizes a net leasing investment in accordance with §§68-74 IFRS 16. In case of the financial leasing of own products, the fair value of the product or the discounted leasing value lower than it is recognized as revenue from sales. If the leasing interest rate is lower than the market interest rate, the discounted leasing fees are determined using the market rate.*
  - *If the Group makes a leaseback transaction, the transaction is accounted for in accordance with §§99-103 IFRS 16. Possible profit from the disposal of an asset to the lessor is recognized in the result proportionally to the value of the rights transferred to the lessor, if the asset is transferred according to IFRS 15. In the lack of such a transfer, no profit is recognized, assets are not excluded and the consideration received is recognized as a financial liability.*

Intangible assets (IA)

- *A definition of IA has been specified in §12 of MSR 38 "Intangible Assets" and criteria for their recognition in §21 of MSR 38.*
- *The Company initially recognizes IA acquired in separate transactions at acquisition prices, while IA produced by the Company at a production cost.*
- *If software licenses or similar assets are acquired, costs of implementation of software incurred until the date of bringing it to the assumed fitness for purpose specified by the Company's Management Board should be recognized under the IA initial value. The implementation costs do not include costs of employee trainings which encumber profit or loss on the date they are incurred.*
- *Only IA meeting the criteria specified for development works in §57 of MSR 38 may be classified as IA produced by the Company. Goodwill, trademarks etc. are not classified as IA, if produced by the Company.*
- *After the initial recognition, the Company evaluates IA at the purchase price or cost of production less amortization write-offs, pursuant to the model specified in § 74 of MSR 38.*
- *With regard to each IA, the Company determines a period of economic useful life. A period of economic useful life may be unlimited. A period of economic useful life resulting from legal titles may not be longer than a period of validity of such titles.*
- *IA is subject to amortization in a period of economic useful life from the day on which an asset is ready for use until the date on which it is excluded from recognition or it is intended for sale.*
- *The Entity applies a straight-line amortization method of IA, unless other methods (degressive method, method based on production units) better reflect the consumption of economic benefits. The Company may apply other methods and rates in order to establish tax income.*
- *An amortization period and method are subject to periodic verification, at least at the end of each financial year. If a significant change is found as compared to previous estimates, the entity changes amortization rates and/or method starting from the first day of the reporting period.*
- *IA with an indefinite period of economic useful life and goodwill are not subject to amortization, but they are tested for impairment loss at the end of each financial year and when there are premises that impairment loss of IA has occurred. Moreover, the correctness of the assumption that IA has an indefinite period of useful life is verified on an annual basis and, if needed, IA is reclassified to amortized IA. Goodwill is not subject to reclassification.*
- *IA of the initial value not exceeding PLN 3,000.00 are charged as a single entry to costs of "purchase of tools and equipment" recorded on account 411-09 and recognized under off-balance sheet records. IA of the initial value above PLN 3,000.00 are recognized in IA itemized records and amortized as a single entry in the month following the month in which IA are ready for use as expected by the management.*

Investment property

- *Principles of recognition and evaluation of investments in property are regulated in MSR 40 "Investment property"*
- *The Company classifies real properties held to generate rent income or an increase in their value as investment properties. If the real property is also used for own needs of the Company, while the separately used part may not constitute a separate ownership unit, the real property is treated as a fixed asset, if the use for own needs prevails, or as investment in the real property, if the investment character prevails.*
- *The Company evaluates real properties at fair values. Due to the materiality principle, the Company assumes that the valuations referred to in the previous point, made up to 3 months before or after the date on which the given valuation is made, meet the valuation conditions on that day, if no significant changes took place at that time changes in the external environment affecting the value of a given property. At the same time, in the case of real estate purchased on the free market six months before the balance sheet date, no real estate valuation update is required if there were no significant changes in the external environment.*

Shares in subsidiaries

The Dekpol S.A. Capital Group as of the balance sheet date is composed of Dekpol S.A. as the parent entity and twenty two subsidiaries.

All of the above companies are subject to full consolidation.

Direct subsidiaries of Dekpol S.A.:

1) Dekpol 1 Sp. z o.o. - limited partner of DEKPOL 1 Sp. z o.o. SKA;

2) Dekpol 1 Sp. z o.o. S.K.A. - is responsible in the DEKPOL Group for the management of subsidiaries appointed to perform specialized tasks as well as intangible and intellectual values in the DEKPOL Group;

3) UAB DEK LT Statyba – company established to support the Company's operations in Lithuania, as well as to manage future contracts in the General Contractor implemented in Lithuania;

4) Dekpol Deweloper Sp. z o.o. - the purpose of the creation was to separate an organized part of the Dekpol S.A. covering the property development activity and transferring it in kind to this company, which took place on 1st of january 2020;

5) Betpref Sp. z o.o. – a company established to ensure the continuity of deliveries of precast concrete products used in the performance of contracts in general contracting;

6) Dekpol Steel Sp. z o.o. – the purpose of the creation was to separate an organized part of the enterprise Dekpol S.A. covering the production of accessories for construction machinery and transferring it in kind to this company, which took place on January 1, 2020;

7)Dekpol Budownictwo Sp. z o.o. - the purpose of the creation is to separate in the future an organized part of the enterprise of Dekpol S.A. covering general contracting activities and its transfer in kind to this company.

Indirect subsidiaries of Dekpol S.A. (via Dekpol 1 Sp. z o.o. S.K.A.):

1) Dekpol Royalties Sp. z o.o. - a company responsible in the DEKPOL Group for brand service in the context of image and product promotion (The Management Board plans to liquidate the Company in 2019),

2) Almond Sp. z o.o. – company owning the property in Gdańsk at Toruńska street 12 (Hotel Almond).

Indirect subsidiaries of Dekpol S.A. (via Dekpol Deweloper Sp. z o.o.):

1) Dekpol Inwestycje Sp. z o.o. - general partner of special purpose vehicles carrying out individual development investments in the Dekpol Capital Group: Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k .; Dekpol Inwestycje Sp. z o.o. Rokitki Sp.k .; Dekpol Inwestycje Sp. z o.o. Development Sp. k., Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k., Dekpol Inwestycje Sp. z o.o. Myśliwska Sp. k., Dekpol Inwestycje Sp. z o.o. WBH Sp. k., Dekpol Inwestycje Sp. z o.o. Neo Jasień Sp. k. (formerly Dekpol Inwestycje Sp.z o.o. Osiedle Zielone Sp.k.), Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k., Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k., Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k .;

2) Dekpol Pszenna Sp. z o.o. - general partner of a special purpose vehicle for the implementation of a development investment on ul. Pszenna in Gdańsk;

3) Nordic Milan Sp. z o.o. - the company operates in the development industry; owns land property in Milanówek, on which it has completed the Eco Milan development project;

4) Smartex Sp. z o. o. - the owner of a land property in Wrocław at ul. Braniborska, where the Company, as the general contractor, intends to jointly develop a development project with a natural person who owns 37.7% of Smartex shares. Dekpol Deweloper Sp. z o.o. owns 62.3% of shares in Smartex and the right to purchase 37.7% of shares in Smartex. A special purpose vehicle - Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k.

Indirect subsidiaries of Dekpol S.A. (via Dekpol Deweloper Sp. z o.o. and Dekpol Pszenna Sp. z o.o.):

1) Dekpol Pszenna Sp. z o.o. Sp.k. - a special purpose vehicle for the implementation of a development investment under the name Grano Residence in Gdańsk at ul. Pszenna.

Indirect subsidiaries of Dekpol S.A. (via Dekpol Deweloper Sp. z o.o. oraz Dekpol Inwestycje Sp. z o.o.):

1) Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k. - a special purpose vehicle for the implementation of a development investment under the name Pastelowa in Gdańsk;

2) Dekpol Inwestycje Sp. z o.o. Rokitki Sp.k. - a special purpose vehicle for the implementation of development investments in Rokitki and Śliwiny near Tczew;

3) Dekpol Inwestycje Sp. z o.o. Development Sp. k. - a special purpose vehicle for the implementation of smaller development investments, including in Jurata, Hel and Gdańsk;

4) Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k. - a special purpose vehicle for the implementation of a development investment in Wrocław;

5) Dekpol Inwestycje Sp. z o.o. Myśliwska Sp. k. - a special purpose vehicle for the implementation of a development investment under the name Foresta in Gdańsk;

6) Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k. - a special purpose vehicle for the implementation of a development investment in Gdańsk on Sobieszewska Island;

7) Dekpol Inwestycje Sp. z o.o. WBH Sp. k. - a special purpose vehicle for the implementation of a development investment in Warsaw;

8) Dekpol Inwestycje Sp. z o.o. Neo Jasień Sp. k. (formerly Dekpol Inwestycje Sp.z o.o. Osiedle Zielone Sp.k.) - a special purpose vehicle for the implementation of a development investment under the name Neo Jasień in Gdańsk;

9) Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k. a special purpose vehicle for the implementation of a development investment in Wiślinka;

10) Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k. - a special purpose vehicle for the implementation of smaller development investments in Gdańsk on the Sobieszewska Island.

Dekpol S.A. owns 100% shares in: Dekpol 1 Sp. z o.o., UAB DEK LT Statyba, Betpref Sp. z o.o., Dekpol Deweloper Sp. z o.o., Dekpol Steel Sp. z o.o., Dekpol Budownictwo Sp. z o.o. and 100% shares in Dekpol 1 Sp. z o.o. S.K.A.

Dekpol 1 Sp. z o.o. S.K.A. owns 100% shares in Dekpol Royalties Sp. z o.o. and Almond Sp. z o.o.

Dekpol Deweloper Sp. z o.o. owns 100% shares in Nordic Milan Sp. z o.o., Dekpol Pszenna Sp. z o.o. and Dekpol Inwestycje Sp. z o.o.

Dekpol Deweloper Sp. z o.o. owns 62.3% shares in Smartex Sp. z o.o. and the right to purchase 37.7% of shares in Smartex Sp. z o.o.

Dekpol Deweloper Sp. z o.o. is a limited partner of Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k .; Dekpol Inwestycje Sp. z o.o. Rokitki Sp.k .; Dekpol Inwestycje Sp. z o.o. Development Sp. k., Dekpol Inwestycje Sp. z o.o. Myśliwska Sp. k., Dekpol Inwestycje Sp. z o.o. WBH Sp. k., Dekpol Inwestycje Sp. z o.o. Neo Jasień Sp. k. (formerly Dekpol Inwestycje Sp.z o.o. Osiedle Zielone Sp.k.), Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k., Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k., Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k., having 99.5% share in profits in these companies, and 0.5% share in profits possessed by Dekpol Inwestycje Sp. z o.o. being the general partner of these companies.

Dekpol Deweloper Sp. z o.o. is a limited partner of the company Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k., having 49.9% share in profits in this company, and 0.1% share in profits has Dekpol Inwestycje Sp. z o.o. being the general partner of this company.

Dekpol Deweloper Sp. z o.o. is a limited partner of the company Dekpol Pszenna Sp. z o.o. Sp.k. having in this company a 99.5% share in profits, while Dekpol Pszenna Sp. z o.o. being the general partner of this company, it holds a 0.5% share in profits, with the proviso that the profit attributable to distribution among the companies from the Dekpol Group is reduced by the amount of PLN 500, attributable to the company's second limited partner.

Dekpol S.A. operates in three areas:

- *general contracting in the field of construction of industrial, public, sports and recreational facilities, environmental protection facilities, as well as sanitary, road and hydrotechnical works;*
- *real estate development - construction, finishing and sale of housing estates, single-family housing estates, luxury apartment buildings, condo and apart hotels as well as commercial and service areas;*
- *production of accessories for construction machinery.*

Financial instruments

- *For the valuation of financial assets, the Company applies the principles set out in MSR 27 "Separate Financial Statements" and MSSF 9 "Financial Instruments".*
- *The company measures in its separate financial statements investments in subsidiaries and associates at cost in accordance with § 10 (a) of MSR 27.*
- *The Company classifies financial assets other than investments in subsidiaries and associates in accordance with the definitions set out in MSSF 9 upon initial recognition in the following categories:*

- *Assets measured at amortized cost,*
- *Assets measured at fair value through other comprehensive income.*

- *The Company identifies and separates embedded derivatives if they meet the criteria specified in § 4.3.3 MSSF 9. The Company does not separate currency derivatives embedded in contracts concluded in a currency other than the functional currency of the Company, if the contract currency is the functional currency for the other party to the contract.*

The company has implemented a model of expected credit losses in accordance with a simplified method acceptable for use by MSSF 9. In particular, write-downs for receivables are created:

- *Receivables lost - in full,*
- *For expected credit losses - in the estimated amount based on the historical relation of write-offs of receivables lost in the last 3 years to the balance of receivables at the beginning of the period,*
- *For losses due to late payments - in an estimated amount based on historical data on late payments in the last 3 years before the balance sheet date.*

Derivative financial instruments

They did not occur in the financial year.

Inventory

- *The rules for recognizing and measuring inventories are contained in MSR 2 "Inventory".*
- *Inventories are valued at acquisition prices or production costs, not higher than the net realizable value.*
- *To the cost of production of work in progress or finished products, the Company includes all direct costs and variable indirect costs of producing the inventory component as well as the part of fixed indirect costs that was incurred as a result of using normal production capacity.*
- *The company sets an annual production plan for each month for the production department (quantity - mass of finished products manufactured). If the plan implementation does not exceed 90%, the proportion of fixed indirect production costs proportional to the unrealized plan shall not be included in the costs of inventory production. In addition, fixed indirect production costs for the period of plant or department downtime are not eligible for the cost of inventory if the downtime exceeds one business day.*
- *The costs of unused production capacity are charged to the costs of basic operating activities in the month they were incurred.*
- *The cost of inventories does not include exchange rate differences or interest on liabilities financing inventories.*
- *Purchase costs are recognized as an increase in the value of materials, provided that they can be directly allocated.*

- *Inventory outgoings are valued according to the first in - first out (FIFO) method.*
- *The inventory of finished products of the steel constructions and fittings department is valued at reference prices corresponding to the planned manufacturing costs. The differences in the actual cost of production to the cost at reference prices are referred to as deviations and are accounted for in the financial result of the period in proportion to the value of finished products referred to the result of the period at reference prices.*
- *At the end of the reporting period, the Company compares the valuation of inventories at purchase price or production cost to the net realizable value. For items for which the net realizable value is lower than the carrying value, the Company makes a write-off to the net realizable value.*
- *The company determines the progress of works on construction service contracts with the share of costs incurred in the contract in the costs of the planned contract. To measure the progress of work, costs not covered by the plan are not included. Costs incurred include material costs, insofar as they relate to embedded materials as planned. Non-embedded materials are included in the stock of materials.*

Equity

- *The company includes in equity:*
  - *Equivalent of issued equity instruments (shares, stock options, etc.). Equity instruments The Company distinguishes from liabilities in accordance with the provisions of § 15-20 IAS 32 "Financial Instruments - Presentation". Depending on legal regulations, they are recognized as share capital, supplementary capital or reserve capital.*
    - *In the case of issuing compound instruments, consisting of an equity instrument and a financial liability (e.g. bonds for shares), the Company separates and measures the equity instrument by presenting its value as equity.*
  - *Retained earnings - depending on the shareholders' decision, presented as supplementary or reserve capitals. They are valued at their nominal value.*
  - *The effects of the valuation of assets and liabilities recognized directly in equity - presented as reserve capitals. They are valued at their nominal value.*
  - *Undivided result from previous years. It is valued at the nominal value.*
- *Equity is not subject to revaluation, except for hyperinflation in accordance with MSR 29 "Financial reporting in hyperinflationary economies".*

Reserves

- *The company recognizes provisions for liabilities in accordance with IAS 19 "Employee benefits" in respect of provisions for employee benefits and IAS 37 "Provisions, contingent liabilities and contingent assets" in respect of other provisions.*

- *The company creates reserves for the following employee benefits:*
- *retirement benefits - using actuarial methods. The Company considers the discount rate on the average yield of 10-year Treasury bonds from the last 12 months before the balance sheet date as the discount rate. The company adopts the expected increase in salaries above inflation of 1% per year. The company estimates the provision once every 3 years, unless there have been significant changes in the size and structure of employment or the discount rate;*
  - *The company does not use the "actuarial corridor".*
- *Unused employee leaves - are estimated as the product of the average remuneration in the Company constituting the basis on the balance sheet date for the payment of the equivalent for unused vacation (including mark-ups charged to the employer's costs) and the number of days of unused vacation;*
- *Other short-term employee benefits related to the reporting period - bonuses, salaries etc. - are treated as liabilities if their value is determined and unconditional. Otherwise, they are recognized as provisions.*

- *The company creates the following provisions for other titles:*
  - *On the effects of legal disputes - in the amount of the full value of the subject of dispute and the expected costs related to the dispute, if the legal assessment shows a medium or high probability of losing;*
  - *For warranty repairs and complaint costs - created based on the historical relation of repair costs incurred to sales revenues of products covered by the warranty;*
  - *For future losses from pending business operations - created if the contract to which the Company is party incurs burdens, e.g. a contract has been signed that will result in losses, the contract terms have not been fulfilled, which will result in the obligation to pay compensation;*
  - *For restructuring costs - if the conditions specified in par. 77 of MSR 37 - in the amount specified in par. 80-83 MSR 37.*

Accured expenses

- *The company settles over time incurred costs that relate to future reporting periods. In particular, billing in proportion to the passage of time shall cover:*
  - *Insurance costs;*
  - *Subscription and subscription costs;*
  - *Costs of utilities, rents etc. pre-paid.*

Deferred income

Subsidies and state aid

- *Government grants and disclosure of government assistance information is regulated by MSR 21 "Accounting for received subsidies and state aid".*

- *Subsidies for costs or revenues incurred or obtained in the past are recognized as income in the period in which they became due. Subsidies are presented as a separate item of revenues from basic operating activities, unless they relate to costs or revenues of other operating activities - then they are presented as other operating revenues.*
- *Subsidies to assets are recognized as deferred income and accounted for in revenues in proportion to the value of the subsidized asset written off into costs. The settled part of the subsidy is presented as income at the same level of the profit and loss account, in which the costs related to the subsidized asset are recognized.*

Income tax

- *The principles of valuation and recognition of income tax are regulated by MSR 12 "Income tax".*
- *The taxable income (tax loss) of the Company is the income (loss) for a given period, determined in accordance with the principles established by the Polish tax authorities, on the basis of which income tax is payable (refundable).*
- *Current tax is the amount of income tax payable (refundable) on taxable income (tax loss) for a given period.*
- *Positive and negative temporary differences, assets and provisions for deferred income tax (ODPD), tax and balance sheet value of assets and liabilities are defined in § 5 of MSR 12.*
- *Assets due to deferred income tax constitute amounts anticipated in future periods to be deducted from income tax due to:*
  - *Negative temporary differences,*
  - *Carry forward to unused tax losses and*
  - *Transferring unused tax credits to the next period.*
- *Tax expense (tax income) consists of the current tax expense (current tax income) and deferred tax expense (deferred tax income).*
- *The company creates a provision for deferred income tax (recognizes an asset for deferred income tax) in all those cases where the realization or settlement of the carrying amount of an asset or liability results in an increase (decrease) in the amount of future tax payments compared to the amount that it would be appropriate if this implementation or settlement would not have tax effects.*
- *Current valuation of tax receivables and liabilities should be made in amounts requiring payment according to the rates legally or actually binding as at the balance sheet date.*
- *Based on the forecasts of financial results in subsequent years, it is necessary to assess whether there are premises (planned taxable income) to create a deferred tax asset or to adjust its value.*
- *The company does not discount deferred tax assets and reserves.*

- *Assets and reserves from temporary differences, the effects of which were recognized directly in equity, will be recognized in equity and not in the result of the period.*
- *Tax receivables and liabilities are separately disclosed in the financial statements, as are assets and provisions under ODPD.*
- *Current income tax liabilities and liabilities should not be offset. Compensation is allowed only if the Company:*
  - *Has an enforceable legal title to offset the amounts recognized,*
  - *Intends to pay tax in the net amount or to simultaneously pay the debts and settle the liability.*
- *Assets and provisions for ODPD should not be offset. Compensation is allowed only if the Company:*
  - *Has an enforceable legal title to offset the amounts recognized,*
  - *Assets and reserves relate to income tax imposed on one or several taxpayers under several conditions.*
- *Disputes with tax authorities result in recognition of contingent liabilities. If the probability of an unfavorable settlement is high, the Company recognizes reserves in accordance with MSR 37 "Reserves".*

Transactions denominated in foreign currencies

- *The principles of valuation and recognition of transactions in foreign currencies are regulated by MSR 21 "Effects of changes in foreign exchange rates".*
- *The functional currency of the Company is Polish zloty (PLN). The company prepares financial statements in the functional currency.*
- *The company measures transactions in foreign currencies at the immediate exchange rate as at the transaction date. It is assumed that the immediate exchange rate as at the transaction date is the average exchange rate of the National Bank of Poland from the day preceding the transaction.*
- *As at the balance sheet date, the Company measures assets and liabilities expressed in foreign currencies:*
  - *Cash (currencies as well as receivables and liabilities expressed in foreign currencies) - according to the immediate maturity exchange rate as at the balance sheet date, i.e. according to the average exchange rate of the National Bank of Poland as at the balance sheet date,*
  - *Non-monetary items measured at historical cost - at the exchange rate as at the transaction date, i.e. they are not subject to revaluation as at the balance sheet date,*
  - *Non-monetary items measured at fair value - using exchange rates that were in force on the date on which the fair value was determined, i.e. the average exchange rate of the National Bank of Poland on that day.*
- *If the effects of the valuation of a non-monetary item at fair value are recognized in equity, the exchange differences on the valuation are recognized in the same way. Otherwise, exchange differences are recognized in the result for the period.*

Sales revenues

- *The principles for recognizing revenues other than those obtained from the sale of financial instruments are set out in MSSF 15 "Revenue from contracts with clients".*
- *Revenues and costs obtained from the sale of financial instruments are recognized at the date of excluding the disposed financial instrument from the balance sheet in accordance with MSSF 9.*
- *Revenue is measured at fair value of the payment. If the payment date is deferred, the revenue should be recognized at the discounted amount at the date of creation. The discount value is the interest (financial) income recognized in accordance with the effective interest rate during the deferred payment period. Revenue is not discounted if the payment period does not exceed 180 days.*

Thus, the Company recognizes revenues from contracts with customers only if all of the following conditions are met:

- *the parties to the contract have concluded a contract and are required to perform their obligations,*
- *the entity is able to identify the rights of each party regarding the goods or services to be transferred;*
- *the entity is able to identify the payment terms for the goods or services to be transferred;*
- *the contract has economic content and*
- *it is likely that the Company will receive a remuneration which it will be entitled in exchange for goods or services which will be transferred to the client.*

- *Revenue should be recognized when the significant risks and benefits of an asset are transferred and when the Company ceases to be permanently involved in managing the asset as an owner. In addition, revenue is considered to have been achieved if the amount of revenue can be estimated reliably and it is probable that the enterprise will obtain economic benefits from the transaction and if the costs incurred can be measured reliably.*
- *When determining the moment of achieving revenues, the International Trade Terms - "Incoterms" are used. (International Commercial Terms), developed by the International Chamber of Commerce in Paris.*

In accordance with the standard, revenue from sales is recognized when and to the extent that the entity meets the obligation to provide a service or deliver goods. Fulfillment of the obligation occurs when the customer gains control over the transferred asset. Revenues from sales are recognized at the transaction price, i.e. the amount expected to be paid. If the amount of income is variable, according to the new standard, variable amounts are included in income, as long as there is a high probability that in the future there will be no reversal of revenue recognition as a result of revaluation.

The company transfers control over a good or service over time and thus meets the obligation to provide a service and recognizes revenue over time if one of the following conditions is met:

- *the customer simultaneously receives and benefits from the benefits as it is provided,*
- *as a result of the performance of the asset, an asset is created or improved, and the control over this asset - as it arises or is improved - by the customer,*
- *as a result of the performance of the service, no alternative component is created for the Company, but it has an enforceable right to pay for the service rendered so far. In the case of general contracting, they fulfill this criterion.*

- *Both in the case of the provision of construction services by the Company and the supply of accessories for construction machinery, there is generally one obligation to perform the service. Thus, the issue of attributing the transaction price to the performance obligation does not require estimation. In the case of construction contracts, the level of progress of the works and the expected margin should be estimated.*
- *If the price depends on future events or if there is an intention to grant a discount at the end of the contract, the Company estimates the price for the performance of the obligation and includes in the transaction price part or all of the amount of variable remuneration only to the extent that there is a high probability that no there will be a reversal.*
- *The costs of commission on sales are settled when the premises are sold.*
- *The Company does not identify the financing component in contracts with respect to retained deposits, in which the retained amount is a guarantee of good performance of the contract due to low significance.*
- *For each obligation to perform a service fulfilled over time, the Company recognizes revenue based on input-based measurement methods (method of the share of costs incurred until the date of determining the revenue in the total cost of the service).*
- *Dividends should be recognized when the shareholders' right to receive them is established.*

Operating costs

- *Costs are recognized in profit or loss on the date they are incurred, i.e. when the assets or liabilities to which they correspond are excluded.*
- *The costs of employee benefits are recognized in the period in which the employees rendered their work.*
- *Borrowing costs are recognized as costs of the period in which they were incurred, except for costs that can be directly attributed to the acquisition, construction or production of the qualifying asset. They should then be activated as part of the purchase price or production cost of this asset.*

The rules for settling construction contracts

- *For implemented construction contracts not constituting a development activity, the Company applies the provisions of IFRS 15 "Revenue from contracts with Customers".*
- *The progress of work, if possible, is determined on the basis of the share of costs incurred to the costs budgeted for the project. The costs incurred do not include the value of materials transferred to the construction site but not built in as intended.*
- *The margin is recognized on the basis of comparing the contract value with planned costs (budget).*
- *The total difference between estimated revenues and invoiced revenues is recognized as receivables from construction contracts (positive difference) or liabilities due to construction contracts (negative difference).*

Settling the costs of property development activity

- *To the cost of manufacturing objects as part of development activities, costs that meet the criteria for the technical cost of manufacturing are recognized, including:*
  - *Direct manufacturing costs,*
  - *Indirect costs associated with the construction of the facilities, in particular:*
    - *Logistics department costs (fuel, car maintenance, logistics management, drivers' remuneration when cars are used on various projects) - accounted for development projects and general contracting according to the key of direct manufacturing costs.*
    - *Costs of the procurement department of general contracting and development activities - accounted for development projects and general contracting according to the direct production cost key.*
- *The company extracts accounting devices (accounts) for each development project (Order). The criterion for separating the Order is the estimated time of completion of construction of all objects (buildings and structures) covered by the given order and the similarity of the objects covered by the Order. As part of a single order, expenditure on the production of facilities whose planned completion of use differs by more than 6 months (i.e. the earliest object completed under the order will be completed earlier than 6 months before the last object completed under the order) should not be included. Within one order should not include objects for which the estimated cost of producing PU (usable floor space of the premises) differs more than by 20%. After completing the order, the costs are billed per square meter of PU according to the following algorithm:*
  - *TKW 1m2 PU = [(PKZR) – (POPS)*(CPOPS)]/(PUO)*
  - *Where:*
  - *TKW – technical manufacturing cost*
    PKZR – total order costs incurred
    POPS – area of auxiliary facilities subject to sale (garages, basements)

CPOPS – expected selling price per square meter of ancillary facilities
PUO – total usable area of premises

- *The above algorithm assumes that auxiliary areas are valued according to expected sales revenues, similarly to auxiliary production. The costs of shared facilities are billed proportionally per square meter of PU.*
- *If the data as part of a given order has been completed and is subject to sale or commissioning before the completion of other objects (if other objects are planned to be completed no later than within 6 months from the completion of the first object under the order), then the costs are calculated per square meter of PU of the completed object according to the following algorithm:*
  - *FTKW 1m2 PU = [(PKZR) + (FKZR) – (POPS)*(CPOPS)]/(PUO)*
  - *Where:*
  - *TKW – estimated technical manufacturing costs*
  - *FKZR – Estimated future costs necessary to complete the order*
- *After completing the order (no later than within 6 months) the costs are finally determined and FTKW is corrected to TKW.*
- *In the event that the initial assumption that all objects under the order will be completed within 6 months and the value of the production cost of 1 m2 PU of the implemented objects will not differ by more than 20% will not be confirmed, the company will distribute orders in accordance with applicable criteria and all costs previously incurred under the order are subject to re-assignment broken down into new orders.*

If the company incurs significant outlays on joint parts related to many orders, these outlays are divided into orders proportionally to PU, and the settlement is made only in relation to open orders or planned to be opened within 12 months from the day of incurring these expenditures.

9. Financial risk management

In operations of the Capital Group DEKPOL S.A. the following types of financial risks are relevant:

- *interest rate risk - as part of its operations, the Group is exposed to interest rate risk. The Group has financial liabilities, the financial cost of which is calculated on the basis of a variable WIBOR base interest rate and a fixed margin. An increase in the base rate by 0.5 pp would cause an increase in financial costs by approx. 1482 thousand. PLN, assuming that the balance of liabilities bearing a fixed rate would remain unchanged throughout the financial year.*
- *exchange rate risk and risk of changes in raw material prices - due to a further increase in the scale of operations in foreign currencies, the Group is exposed to currency risk from concluded transactions. Such risk arises as a result of sales or purchases made by the Group in currencies other than the national currency. If as at 31/12/2019 the EUR exchange rate was higher or lower by 3%, then the Group's financial assets would be higher or lower by PLN 945,000. PLN and financial*

liabilities higher or lower by 471 thousand of PLN - as a result of negative or positive exchange rate differences resulting from the conversion of receivables, loans granted, cash accumulated on bank accounts and trade liabilities. In order to limit the risk of exchange rate fluctuations, in the currency settlements related to export sales and imported purchases, the Group largely uses natural hedging, which results in balancing currency flows. During short-term and identifiable imbalances in currency flows, the Group will use currency derivatives to unrealistically hedge future cash flows.

- *credit risk - a potential economic crisis may cause financial instability of the Group's recipients and thus temporary difficulties in the recovery of receivables and the formation of payment gridlocks. The Group minimizes credit risk through diversification of the recipient portfolio and consistent application of the monitoring and debt recovery procedures.*
- *liquidity risk - the Group manages liquidity risk by financial planning, matching the maturity of assets to liabilities and by the surplus of available financing sources over the current needs of the Group.*

The Group does not have instruments hedging the indicated financial risks and does not keep hedge accounting. The Group strives to minimize the impact of the above risks by applying ongoing monitoring of individual risk areas through implemented control procedures and regular risk exposure analysis.

Other risks affecting the operations of the Company and the Dekpol Capital Group were further described in the Management Board's Report on operations.

10. Important assessments and judgements

The estimates of the Management Board of DEKPOL S.A., affecting the values disclosed in the financial statements, mainly relate to:

- *the anticipated period of economic usability of fixed assets and intangible assets,*
- *write-downs on assets, including, among others, assets held for sale,*
- *progress of works determined for the purposes of settlement of construction service contracts together with specification of the planned margin realized on the contract,*
- *discounts, projected salary increases and actuarial assumptions used in calculating provisions for retirement and pension benefits,*
- *fair value of investment property,*
- *future tax results taken into account when determining deferred tax assets.*

The methodology used to determine the estimated values is based on the best knowledge of the Company's Management Board and is consistent with the requirements of MSSF. The methodology for determining accounting estimates is applied consistently to the last reporting period, except for the methodology for estimating revaluation write-offs for credit losses related to trade receivables, in accordance with the methodology specified in MSSF 15 "Revenue from contracts with

clients". In the opinion of the Management Board, the application of a new methodology for estimating receivables write-offs would not significantly affect the comparative data. Changes to revaluation write-offs are presented in the further part of the information in additional explanatory notes to individual asset items.

II. Content after correction

8. Rules for valuation of assets and liabilities and financial results, adopted in preparation of financial statement.

Whenever the Company is indicated below, it applies to the whole DEKPOL S.A. Capital Group

Property, plant and equipment

- Property, plant and equipment are subject to initial recognition at the acquisition price or production cost.
- The acquisition price or production costs are subject to an increase by costs of disassembly and removal of an item of property, plant and equipment and renovation of the place of using it, if the Company is obliged to do so.
- The acquisition price or production costs are not subject to adjustment by foreign exchange differences related to liabilities financing the acquisition of an asset accrued up to the date of putting an asset into use, unless it results from the policy adopted in the scope of hedge accounting.
- The acquisition price or production costs are subject to an increase by costs of interest on liabilities financing the acquisition of an asset accrued up to the date on which an asset is ready for use.
- After the initial recognition, the Company evaluates property, plant and equipment at the acquisition price or production cost minus depreciation write-offs (acquisition price or production cost model).
- With regard to each item of property, plant and equipment, the Company determines a period of economic useful life. If it is justified in relation to significant component parts of property, plant and equipment to apply various periods of economic useful life and depreciation rates/methods, the Company applies various depreciation rates/methods in relation to each significant component part of property, plant and equipment.
- Property, plant and equipment are subject to depreciation in a period of economic useful life from the day on which an asset is ready for use until the date on which it is excluded from recognition or it is intended for sale.
- The Company accepts that the final (residual) value of used property, plant and equipment is usually insignificant and will not be determined, unless the residual value is significant in relation to a given item of property, plant and equipment. The residual

value constituting at least 20.0% of the initial value of an item of property, plant and equipment is deemed significant.

- A depreciation period, depreciation method and residual value (if determined) are subject to periodic verification at least at the end of each financial year. If a significant change is found as compared to previous estimates, the entity changes amortization rates and/or method starting from the first day of the reporting period.
- A depreciation period, depreciation method and residual value (if determined) are subject to periodic verification at least at the end of each financial year. If a significant change is found as compared to previous estimates, the entity changes amortization rates and/or method starting from the first day of the reporting period.
- Property, plant and equipment of the initial value not exceeding PLN 3,000.00 are recognized in off-balance sheet records and are charged as a single entry to costs of "purchase of tools and equipment".
- Costs of improvement of property, plant and equipment increase their initial value, provided that improvement consists in extending a period of economic useful life or improving parameters of property, plant and equipment measured by means of costs of operation, productivity, quality of manufactured products or scope of functionality.
- Costs of current renovations and inspections of property, plant and equipment are recognized as costs of the period in which they are incurred, unless they result in extending a period of economic useful life as compared to the initially assumed period.
- If property, plant and equipment are excluded from use, the Company does not discontinue depreciation, unless an item of property, plant and equipment is held for sale within 12 months. In such a case, property, plant and equipment are evaluated at the initial value less revaluation write-offs or at the fair value less selling costs, whichever is lower, and are not subject to depreciation - according to MSSF 5 *"Non-Current Assets Held for Sale and Discontinued Operations"*.

Lease

- The Company, pursuant to MSSF 16 „Leasing", recognizes the liability under concluded lease agreement in the amount of the present value of outstanding lease payments. The lease payments are discounted using the lease interest rate if that rate can be easily determined. Otherwise, the lessee uses the lessee's incremental borrowing rate.
- For valuation of the right to use an asset, the Company applies the cost model, except for investment properties measured at fair value.
- The company uses discounted value of debts divided in to long and short term debts. The value of debt is updated if lease period is changed or if prediction of buying out abilities will change (updated according to discount rate) or if the lease charges will change due to other than rate changes (updated with no changes to discount rate). The difference in value is written according to changes in right to use value changes.
- In financial statement, the company presents the right to use assets in appropriate positions if the leased asset was owned by the company. Lease liabilities are recognized as other financial liabilities. Relevant information required by IFRS 16 is disclosed in additional explanatory notes.
- The company uses exemptions allowed by IFRS 16, i.e. it does not disclose the right of use and liabilities, but only recognizes the costs of current lease payments) in relation to:

  - short-term lease agreements (concluded for the period shorter than 1 year) or when
  - where the lease subject value does not exceed PLN 4.000,00.

- When the company is the lessor, it classifies lease as operating or finance lease. A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership of underlying asset. The lease is classified as an operating lease if substantially all risks and rewards incidental to ownership of underlying asset are not transferred.
- In case of an operating lease, the Company recognizes leased component in assets and recognizes revenue on a straight-line basis over the lease period (any promotional incentives are spread over time).
- In case of a finance lease, the Company recognizes a net investment in lease, determined at the amount of qualifying lease payments discounted using the lease interest rate. In case of leasing own products under finance lease, fair value of the product or the lower value of discounted lease payments is recognized in the same way as sales revenues. If the lease interest rate is lower than the market rate, discounted lease payments are determined by use of market rate.
- If the Company makes and leaseback transaction, the transaction is settled depending on whether the transfer of the asset qualifies as a sale. Any gain on disposal of the asset to the lessor is recognized in profit or loss in proportion to the value of rights transferred to the lessor, provided that the asset is transferred that qualifies as a sale. In the absence of such a transfer, no profit is recognized, the assets are not excluded and the payment received is recognized as a financial liability.

Intangible assets (IA)

- The Company initially recognizes IA acquired in separate transactions at acquisition prices, while IA produced by the Company at a production cost.
- If software licenses or similar assets are acquired, costs of implementation of software incurred until the date of bringing it to the assumed fitness for purpose specified by the Company's Management Board should be recognized under the IA initial value. The implementation costs do not include costs of employee trainings which encumber profit or loss on the date they are incurred.
- Only IA meeting the criteria specified for development works may be classified as IA produced by the Company. Goodwill, trademarks etc. are not classified as IA, if produced by the Company.
- After the initial recognition, the Company evaluates IA at the purchase price or cost of production less amortization write-offs, pursuant to acquisition price and production cost model.
- With regard to each IA, the Company determines a period of economic useful life. A period of economic useful life may be unlimited. A period of economic useful life resulting from legal titles may not be longer than a period of validity of such titles
- IA is subject to amortization in a period of economic useful life from the day on which an asset is ready for use until the date on which it is excluded from recognition or it is intended for sale.
- The Entity applies a straight-line amortization method of IA, unless other methods (degressive method, method based on production units) better reflect the consumption of economic benefits. The Company may apply other methods and rates in order to establish tax income.
- An amortization period and method are subject to periodic verification, at least at the end of each financial year. If a significant change is found as compared to previous estimates, the entity changes amortization rates and/or method starting from the first day of the reporting period.

- IA with an indefinite period of economic useful life and goodwill are not subject to amortization, but they are tested for impairment loss at the end of each financial year and when there are premises that impairment loss of IA has occurred. Moreover, the correctness of the assumption that IA has an indefinite period of useful life is verified on an annual basis and, if needed, IA is reclassified to amortized IA. Goodwill is not subject to reclassification.
- IA of the initial value not exceeding PLN 3,000.00 are charged as a single entry to costs of "purchase of tools and equipment". IA of the initial value above PLN 3,000.00 are recognized in IA itemized records and amortized in the period of economic useful life in accordance with principles indicated above.

Investment property

- The Company classifies real properties held to generate rent income or an increase in their value as investment properties. If the real property is also used for own needs of the Company, while the separately used part may not constitute a separate ownership unit, the real property is treated as a fixed asset, if the use for own needs prevails, or as investment in the real property, if the investment character prevails.
- The Company evaluates real properties at fair values. Due to the materiality principle, the Company assumes that the valuations referred to in the previous point, made up to 3 months before or after the date on which the given valuation is made, meet the valuation conditions on that day, if no significant changes took place at that time changes in the external environment affecting the value of a given property. At the same time, in the case of real estate purchased on the free market six months before the balance sheet date, no real estate valuation update is required if there were no significant changes in the external environment.

Shares in subsidiaries

The Dekpol S.A. Capital Group as of the balance sheet date is composed of Dekpol S.A. as the parent entity and twenty-two subsidiaries.

All of the above companies are subject to full consolidation.

Direct subsidiaries of Dekpol S.A.:

1) Dekpol 1 Sp. z o.o. - limited partner of DEKPOL 1 Sp. z o.o. SKA;

2) Dekpol 1 Sp. z o.o. S.K.A. - is responsible in the DEKPOL Group for the management of subsidiaries appointed to perform specialized tasks as well as intangible and intellectual values in the DEKPOL Group;

3) UAB DEK LT Statyba – company established to support the Company's operations in Lithuania, as well as to manage future contracts in the General Contractor implemented in Lithuania;

4) Dekpol Deweloper Sp. z o.o. - the purpose of the creation was to separate an organized part of the Dekpol S.A. covering the property development activity and transferring it in kind to this company, which took place on 1st of January 2020;

5) Betpref Sp. z o.o. – a company established to ensure the continuity of deliveries of precast concrete products used in the performance of contracts in general contracting;

6) Dekpol Steel Sp. z o.o. – the purpose of the creation was to separate an organized part of the enterprise Dekpol S.A. covering the production of accessories for construction machinery and transferring it in kind to this company, which took place on January 1, 2020;

7)Dekpol Budownictwo Sp. z o.o. - the purpose of the creation is to separate in the future an organized part of the enterprise of Dekpol S.A. covering general contracting activities and its transfer in kind to this company.

Indirect subsidiaries of Dekpol S.A. (via Dekpol 1 Sp. z o.o. S.K.A.):

1) Dekpol Royalties Sp. z o.o. - a company responsible in the DEKPOL Group for brand service in the context of image and product promotion (The Management Board plans to liquidate the Company in 2019),

2) Almond Sp. z o.o. – company owning the property in Gdańsk at Toruńska street 12 (Hotel Almond).

Indirect subsidiaries of Dekpol S.A. (via Dekpol Deweloper Sp. z o.o.):

1) Dekpol Inwestycje Sp. z o.o. - general partner of special purpose vehicles carrying out individual development investments in the Dekpol Capital Group: Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k .; Dekpol Inwestycje Sp. z o.o. Rokitki Sp.k .; Dekpol Inwestycje Sp. z o.o. Development Sp. k., Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k., Dekpol Inwestycje Sp. z o.o. Myśliwska Sp. k., Dekpol Inwestycje Sp. z o.o. WBH Sp. k., Dekpol Inwestycje Sp. z o.o. Neo Jasień Sp. k. (formerly Dekpol Inwestycje Sp.z o.o. Osiedle Zielone Sp.k.), Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k., Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k., Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k .;

2) Dekpol Pszenna Sp. z o.o. - general partner of a special purpose vehicle for the implementation of a development investment on ul. Pszenna in Gdańsk;

3) Nordic Milan Sp. z o.o. - the company operates in the development industry; owns land property in Milanówek, on which it has completed the Eco Milan development project;

4) Smartex Sp. z o. o. - the owner of a land property in Wrocław at ul. Braniborska, where the Company, as the general contractor, intends to jointly develop a development project with a natural person who owns 37.7% of Smartex shares. Dekpol Deweloper Sp. z o.o. owns 62.3% of shares in Smartex and the right to purchase 37.7% of shares in Smartex. A special purpose vehicle - Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k.

Indirect subsidiaries of Dekpol S.A. (via Dekpol Deweloper Sp. z o.o. and Dekpol Pszenna Sp. z o.o.):

1) Dekpol Pszenna Sp. z o.o. Sp.k. - a special purpose vehicle for the implementation of a development investment under the name Grano Residence in Gdańsk at ul Pszenna.

Indirect subsidiaries of Dekpol S.A. (via Dekpol Deweloper Sp. z o.o. oraz Dekpol Inwestycje Sp. z o.o.):

1) Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k. - a special purpose vehicle for the implementation of a development investment under the name Pastelowa in Gdańsk;

2) Dekpol Inwestycje Sp. z o.o. Rokitki Sp.k. - a special purpose vehicle for the implementation of development investments in Rokitki and Śliwiny near Tczew;

3) Dekpol Inwestycje Sp. z o.o. Development Sp. k. - a special purpose vehicle for the implementation of smaller development investments, including in Jurata, Hel and Gdańsk;

4) Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k. - a special purpose vehicle for the implementation of a development investment in Wrocław;

5) Dekpol Inwestycje Sp. z o.o. Myśliwska Sp. k. - a special purpose vehicle for the implementation of a development investment under the name Foresta in Gdańsk;

6) Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k. - a special purpose vehicle for the implementation of a development investment in Gdańsk on Sobieszewska Island;

7) Dekpol Inwestycje Sp. z o.o. WBH Sp. k. - a special purpose vehicle for the implementation of a development investment in Warsaw;

8) Dekpol Inwestycje Sp. z o.o. Neo Jasień Sp. k. (formerly Dekpol Inwestycje Sp.z o.o. Osiedle Zielone Sp.k.) - a special purpose vehicle for the implementation of a development investment under the name Neo Jasień in Gdańsk;

9) Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k. a special purpose vehicle for the implementation of a development investment in Wiślinka;

10) Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k. - a special purpose vehicle for the implementation of smaller development investments in Gdańsk on the Sobieszewska Island.

Dekpol S.A. owns 100% shares in: Dekpol 1 Sp. z o.o., UAB DEK LT Statyba, Betpref Sp. z o.o., Dekpol Deweloper Sp. z o.o., Dekpol Steel Sp. z o.o., Dekpol Budownictwo Sp. z o.o. and 100% shares in Dekpol 1 Sp. z o.o. S.K.A.

Dekpol 1 Sp. z o.o. S.K.A. owns 100% shares in Dekpol Royalties Sp. z o.o. and Almond Sp. z o.o.

Dekpol Deweloper Sp. z o.o. owns 100% shares in Nordic Milan Sp. z o.o., Dekpol Pszenna Sp. z o.o. and Dekpol Inwestycje Sp. z o.o.

Dekpol Deweloper Sp. z o.o. owns 62.3% shares in Smartex Sp. z o.o. and the right to purchase 37.7% of shares in Smartex Sp. z o.o.

Dekpol Deweloper Sp. z o.o. is a limited partner of Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k .; Dekpol Inwestycje Sp. z o.o. Rokitki Sp.k .; Dekpol Inwestycje Sp. z o.o. Development Sp. k., Dekpol Inwestycje Sp. z o.o. Myśliwska Sp. k., Dekpol Inwestycje Sp. z o.o. WBH Sp. k., Dekpol Inwestycje Sp. z o.o. Neo Jasień Sp. k. (formerly Dekpol Inwestycje Sp.z o.o. Osiedle Zielone Sp.k.), Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k., Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k., Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k., having 99.5% share in profits in these companies, and 0.5% share in profits possessed by Dekpol Inwestycje Sp. z o.o. being the general partner of these companies.

Dekpol Deweloper Sp. z o.o. is a limited partner of the company Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k., having 49.9% share in profits in this company, and 0.1% share in profits has Dekpol Inwestycje Sp. z o.o. being the general partner of this company.

Dekpol Deweloper Sp. z o.o. is a limited partner of the company Dekpol Pszenna Sp. z o.o. Sp.k. having in this company a 99.5% share in profits, while Dekpol Pszenna Sp. z o.o. being the general partner of this company, it holds a 0.5% share in profits, with the proviso that the profit attributable to distribution among the companies from the Dekpol Group is reduced by the amount of PLN 500, attributable to the company's second limited partner.

Dekpol S.A. operates in three areas:

- general contracting services in the field of construction of industrial, public, sports and recreational facilities, environmental protection facilities, as well as sanitary, road and hydrotechnical works;
- real estate development activities - construction, finishing and sale of housing estates, single-family housing estates, luxury apartment buildings, condo and apart hotels as well as commercial and service areas;
- production of accessories for construction machines.

Financial instruments

- The company measures in its separate financial statement investments in subsidiaries and associates at cost.
- The Company classifies financial assets other than investments in subsidiaries and associates upon initial recognition in the following categories:
  - Assets measured at amortized cost,
  - Assets measured at fair value through other comprehensive income.
  - The Company identifies and separates embedded derivatives if they meet the criteria of separation from underlying instrument. The Company does not separate currency derivatives embedded in contracts concluded in a currency other than the functional currency of the Company, if the contract currency is the functional currency for the other party to the contract.

The company has implemented a model of expected credit losses in accordance with a simplified method acceptable for use by MSSF 9. In particular, write-downs for receivables are created:

- Receivables lost - in full amount,
- For expected credit losses - in the estimated amount based on the historical relation of write-offs of receivables lost in the last 3 years to the balance of receivables at the beginning of the period,
- For losses due to late payments - in an estimated amount based on historical data on late payments in the last 3 years before the balance sheet date.

Derivative financial instruments and hedge accounting

They did not occur in the financial year.

Inventory

- Inventories are valued at acquisition prices or production costs, not higher than the net realizable value.
- To the cost of production of work in progress or finished products, the Company includes all direct costs and variable indirect costs of producing the inventory component as well as the part of fixed indirect costs that was incurred as a result of using normal production capacity.
- The company sets an annual production plan for each month for the production department (quantity - mass of finished products manufactured). If the plan

implementation does not exceed 90%, the proportion of fixed indirect production costs proportional to the unrealized plan shall not be included in the costs of inventory production. In addition, fixed indirect production costs for the period of plant or department downtime are not eligible for the cost of inventory if the downtime exceeds one business day.

- The costs of unused production capacity are charged to the costs of basic operating activities in the month they were incurred.
- The cost of inventories does not include exchange rate differences or interest on liabilities financing inventories.
- Purchase costs are recognized as an increase in the value of materials, provided that they can be directly allocated.
- Inventory outgoings are valued according to the first in - first out (FIFO) method.
- The inventory of finished products of the steel constructions and fittings department is valued at reference prices corresponding to the planned manufacturing costs. The differences in the actual cost of production to the cost at reference prices are referred to as deviations and are accounted for in the financial result of the period in proportion to the value of finished products referred to the result of the period at reference prices.
- At the end of the reporting period, the Company compares the valuation of inventories at purchase price or production cost to the net realizable value. For items for which the net realizable value is lower than the carrying value, the Company makes a write-off to the net realizable value.
- The company determines the progress of works on construction service contracts with the share of costs incurred in the contract in the costs of the planned contract. To measure the progress of work, costs not covered by the plan are not included. Costs incurred include material costs, insofar as they relate to embedded materials as planned. Non-embedded materials are included in the stock of materials.

Equity

- The company includes in equity:
- Equivalent of issued equity instruments (shares, stock options, etc.). Equity instruments The Company distinguishes from liabilities in accordance with the provisions of § 15-20 IAS 32 "Financial Instruments – Presentation", *i.e., equity instruments include only instruments that do not have a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable*. Depending on legal regulations, they are recognized as share capital, supplementary capital or reserve capital.
- In the case of issuing compound instruments, consisting of an equity instrument and a financial liability (e.g. bonds exchangeable for shares), the Company separates and measures the equity instrument by presenting its value as equity.
- Retained earnings - depending on the shareholders' decision, presented as supplementary or reserve capitals. They are valued at their nominal value.
- The effects of the valuation of assets and liabilities recognized directly in equity - presented as reserve capitals. They are valued at their nominal value.
- Undivided result from previous years. It is valued at the nominal value.
- Equity is not subject to revaluation, except for hyperinflation.

Reserves

- The company creates reserves for the following employee benefits:

- retirement benefits - using actuarial methods. The Company considers the discount rate on the average yield of 10-year Treasury bonds from the last 12 months before the balance sheet date as the discount rate. The company adopts the expected increase in salaries above inflation of 1% per year. The company estimates the provision once every 3 years, unless there have been significant changes in the size and structure of employment or the discount rate;
- The company does not use the "actuarial corridor".
- Unused employee day-offs - are estimated as the product of the average remuneration in the Company constituting the basis on the balance sheet date for the payment of the equivalent for unused vacation (including mark-ups charged to the employer's costs) and the number of days of unused vacation;
- Other short-term employee benefits related to the reporting period - bonuses, salaries etc. - are treated as liabilities if their value is determined and unconditional. Otherwise, they are recognized as provisions.
- The company creates the following provisions for other titles:
- On the effects of legal disputes - in the amount of the full value of the subject of dispute and the expected costs related to the dispute, if the legal assessment shows a medium or high probability of losing;
- For warranty repairs and complaint costs - created based on the historical relation of repair costs incurred to sales revenues of products covered by the warranty;
- For future losses from pending business operations - created if the contract to which the Company is party incurs burdens, e.g. a contract has been signed that will result in losses, the contract terms have not been fulfilled, which will result in the obligation to pay compensation;
- For restructuring costs - if the conditions or performance of restructuring have been set and published prior the end of financial year.

Accrued expenses

- The company settles over time incurred costs that relate to future reporting periods. In particular, billing in proportion to the passage of time shall cover:
- Insurance costs;
- Subscription and subscription costs;
- Costs of utilities, rents etc. pre-paid.

Deferred income

Subsidies and state aid

- Subsidies for costs or revenues incurred or obtained in the past are recognized as income in the period in which they became due. Subsidies are presented as a separate item of revenues from basic operating activities, unless they relate to costs or revenues of other operating activities - then they are presented as other operating revenues.
- Subsidies to assets are recognized as deferred income and accounted for in revenues in proportion to the value of the subsidized asset written off into costs. The settled part of the subsidy is presented as income at the same level of the profit and loss account, in which the costs related to the subsidized asset are recognized.

Income tax

- The taxable income (tax loss) of the Company is the income (loss) for a given period, determined in accordance with the principles established by the Polish tax authorities, on the basis of which income tax is payable (refundable).

- Current tax is the amount of income tax payable (refundable) on taxable income (tax loss) for a given period.
- Assets due to deferred income tax constitute amounts anticipated in future periods to be deducted from income tax due to:
- Negative temporary differences,
- Carry forward to unused tax losses and
- Transferring unused tax credits to the next period.
- Tax expense (tax income) consists of the current tax expense (current tax income) and deferred tax expense (deferred tax income).
- The company creates a provision for deferred income tax (recognizes an asset for deferred income tax) in all those cases where the realization or settlement of the carrying amount of an asset or liability results in an increase (decrease) in the amount of future tax payments compared to the amount that it would be appropriate if this implementation or settlement would not have tax effects.
- Current valuation of tax receivables and liabilities should be made in amounts requiring payment according to the rates legally or actually binding as at the balance sheet date.
- Based on the forecasts of financial results in subsequent years, it is necessary to assess whether there are premises (planned taxable income) to create a deferred tax asset or to adjust its value.
- The company does not discount deferred tax assets and reserves.
- Assets and reserves from temporary differences, the effects of which were recognized directly in equity, will be recognized in equity and not in the result of the period.
- Tax receivables and liabilities are separately disclosed in the financial statements, as are assets and provisions under ODPD.
- Current income tax liabilities and liabilities should not be offset. Compensation is allowed only if the Company:
- Has an enforceable legal title to offset the amounts recognized,
- Intends to pay tax in the net amount or to simultaneously pay the debts and settle the liability.
- Assets and provisions for ODPD should not be offset. Compensation is allowed only if the Company:
- Has an enforceable legal title to offset the amounts recognized,
- Assets and reserves relate to income tax imposed on one or several taxpayers under several conditions.
- Disputes with tax authorities result in recognition of contingent liabilities. If the probability of an unfavorable settlement is high, the Company recognizes reserves in accordance with MSR 37 "Reserves”.

Transactions denominated in foreign currencies

- The functional currency of the Company is Polish zloty (PLN). The company prepares financial statements in the functional currency.
- The company measures transactions in foreign currencies at the immediate exchange rate as at the transaction date. It is assumed that the immediate exchange rate as at the transaction date is the average exchange rate of the National Bank of Poland from the day preceding the transaction.
- As at the balance sheet date, the Company measures assets and liabilities expressed in foreign currencies:

- Cash (currencies as well as receivables and liabilities expressed in foreign currencies) - according to the immediate maturity exchange rate as at the balance sheet date, i.e. according to the average exchange rate of the National Bank of Poland as at the balance sheet date,
- Non-monetary items measured at historical cost - at the exchange rate as at the transaction date, i.e. they are not subject to revaluation as at the balance sheet date,
- Non-monetary items measured at fair value - using exchange rates that were in force on the date on which the fair value was determined, i.e. the average exchange rate of the National Bank of Poland on that day.
- If the effects of the valuation of a non-monetary item at fair value are recognized in equity, the exchange differences on the valuation are recognized in the same way. Otherwise, exchange differences are recognized in the result for the period.

Sales revenues

- Revenues and costs obtained from the sale of financial instruments are recognized at the date of excluding the disposed financial instrument from the balance sheet in accordance with MSSF 9.
- Revenue is measured at fair value of the payment. If the payment date is deferred, the revenue should be recognized at the discounted amount at the date of creation. The discount value is the interest (financial) income recognized in accordance with the effective interest rate during the deferred payment period. Revenue is not discounted if the payment period does not exceed 180 days.

Thus, the Company recognizes revenues from contracts with customers only if all of the following conditions are met:

- the parties to the contract have concluded a contract and are required to perform their obligations,
- the entity is able to identify the rights of each party regarding the goods or services to be transferred;
- the entity is able to identify the payment terms for the goods or services to be transferred;
- the contract has economic content and
- it is likely that the Company will receive a remuneration which it will be entitled in exchange for goods or services which will be transferred to the client.
- Revenue should be recognized when the significant risks and benefits of an asset are transferred and when the Company ceases to be permanently involved in managing the asset as an owner. In addition, revenue is considered to have been achieved if the amount of revenue can be estimated reliably and it is probable that the enterprise will obtain economic benefits from the transaction and if the costs incurred can be measured reliably.
- When determining the moment of achieving revenues, the International Trade Terms - "Incoterms" are used. (International Commercial Terms), developed by the International Chamber of Commerce in Paris.

In accordance with the standard, revenue from sales is recognized when and to the extent that the entity meets the obligation to provide a service or deliver goods. Fulfillment of the obligation occurs when the customer gains control over the transferred asset. Revenues from sales are recognized at the transaction price, i.e. the amount expected to be paid. If the amount of income is variable, according to the new standard, variable amounts are included in income, as long as there is a high probability that in the future there will be no reversal of revenue recognition as a result of revaluation.

The company transfers control over a good or service over time and thus meets the obligation to provide a service and recognizes revenue over time if one of the following conditions is met:

- the customer simultaneously receives and benefits from the benefits as it is provided,
- as a result of the performance of the asset, an asset is created or improved, and the control over this asset - as it arises or is improved - by the customer,
- as a result of the performance of the service, no alternative component is created for the Company, but it has an enforceable right to pay for the service rendered so far. In the case of general contracting, they fulfill this criterion.
- Both in the case of the provision of construction services by the Company and the supply of accessories for construction machinery, there is generally one obligation to perform the service. Thus, the issue of attributing the transaction price to the performance obligation does not require estimation. In the case of construction contracts, the level of progress of the works and the expected margin should be estimated.
- If the price depends on future events or if there is an intention to grant a discount at the end of the contract, the Company estimates the price for the performance of the obligation and includes in the transaction price part or all of the amount of variable remuneration only to the extent that there is a high probability that no there will be a reversal.
- The costs of commission on sales are settled when the premises are sold.
- The Company does not identify the financing component in contracts with respect to retained deposits, in which the retained amount is a guarantee of good performance of the contract due to low significance.
- For each obligation to perform a service fulfilled over time, the Company recognizes revenue based on input-based measurement methods (method of the share of costs incurred until the date of determining the revenue in the total cost of the service).
- Dividends should be recognized when the shareholders' right to receive them is established.

Operating costs

- Costs are recognized in profit or loss on the date they are incurred, i.e. when the assets or liabilities to which they correspond are excluded.
- The costs of employee benefits are recognized in the period in which the employees rendered their work.
- Borrowing costs are recognized as costs of the period in which they were incurred, except for costs that can be directly attributed to the acquisition, construction or production of the qualifying asset. They should then be activated as part of the purchase price or production cost of this asset.

Rules for settlement of construction contracts

- For the ongoing construction contracts that are not a property development activity, for which performance of obligations on behalf of the customer are met on time, the Company recognizes revenues over time by measuring the degree of complete fulfillment of that obligation for performance of services based on the progress of works
- The progress of work, if possible, is determined on the basis of the share of costs incurred to the costs budgeted for the project. The costs incurred do not include the value of materials transferred to the construction site but not built in as intended.

- The margin is recognized on the basis of comparing the contract value with planned costs (budget).
- The total difference between estimated revenues and invoiced revenues is recognized as receivables from construction contracts (positive difference) or liabilities due to construction contracts (negative difference).

Settlement of costs from real-estate development activities

- To the cost of manufacturing objects as part of development activities, costs that meet the criteria for the technical cost of manufacturing are recognized, including:
  - Direct manufacturing costs,
  - Indirect costs associated with the construction of the facilities, in particular:
  - Logistics department costs (fuel, car maintenance, logistics management, drivers' remuneration when cars are used on various projects) - accounted for development projects and general contracting according to the key of direct manufacturing costs.
  - Costs of the procurement department of general contracting and development activities - accounted for development projects and general contracting according to the direct production cost key.
  - The company extracts accounting devices (accounts) for each development project (Order). The criterion for separating the Order is the estimated time of completion of construction of all objects (buildings and structures) covered by the given order and the similarity of the objects covered by the Order. As part of a single order, expenditure on the production of facilities whose planned completion of use differs by more than 6 months (i.e. the earliest object completed under the order will be completed earlier than 6 months before the last object completed under the order) should not be included. Within one order should not include objects for which the estimated cost of producing PU (usable floor space of the premises) differs more than by 20%. After completing the order, the costs are billed per square meter of PU according to the following algorithm:
  - TKW 1m2 PU = [(PKZR) – (POPS)*(CPOPS)]/(PUO)
  - Where:
    - TKW – technical manufacturing cost
    - PKZR – total order costs incurred
    - POPS – area of auxiliary facilities subject to sale (garages, basements)
    - CPOPS – expected selling price per square meter of ancillary facilities
    - PUO – total usable area of premises
  - The above algorithm assumes that auxiliary areas are valued according to expected sales revenues, similarly to auxiliary production. The costs of shared facilities are billed proportionally per square meter of PU.
  - If the data as part of a given order has been completed and is subject to sale or commissioning before the completion of other objects (if other objects are planned to be completed no later than within 6 months from the completion of the first object under the order), then the costs are calculated per square meter of PU of the completed object according to the following algorithm:
  - FTKW 1m2 PU = [(PKZR) + (FKZR) – (POPS)*(CPOPS)]/(PUO)
  - Where:
  - TKW – estimated technical manufacturing costs
  - FKZR – Estimated future costs necessary to complete the order
  - After completing the order (no later than within 6 months) the costs are finally determined and FTKW is corrected to TKW.

- In the event that the initial assumption that all objects under the order will be completed within 6 months and the value of the production cost of 1 m2 PU of the implemented objects will not differ by more than 20% will not be confirmed, the company will distribute orders in accordance with applicable criteria and all costs previously incurred under the order are subject to re-assignment broken down into new orders.
- If the company incurs significant outlays on joint parts related to many orders, these outlays are divided into orders proportionally to PU, and the settlement is made only in relation to open orders or planned to be opened within 12 months from the day of incurring these expenditures.

Segments

Management staff of the Issuer's Group decided to organize the Group based on the criterion of diversified products and services. A segment is not separated if the segment's income or profit / loss or assets represent less than 10% of all segments' revenues, profits / losses or assets, respectively, and at least 75% of consolidated revenues, profits and assets according to IFRS 8 "Operating segments". Information is presented only in the consolidated financial statement.
On the policy approval date, the Issuer identified the following business segments:
- general contracting services,
- real-estate development activity,
- Production of buckets and accessories to machines and devices.

The Issuer specifies geographical segments as a supplementary reporting template.
Explanatory notes in historical financial statements relating to reporting segments contain only the data on revenues to external customers reconciling to consolidated revenues (i.e. after taking into account consolidation exclusions). Sales revenues between segments are not included in segment's profit or loss value reviewed by chief operating decision maker or is otherwise regularly reported to that authority.
Segmentation corresponds to division into similar products or services.
In the period covered by historical financial statements, revenues to a single counterparty did not exceed 10% of total consolidated revenues.

Disclosures regarding fair value of assets and liabilities
Issuer's Group measures only property investments and derivative instruments at fair value. Appropriate valuations are included in financial statements, while valuation of investment properties is made, in line with accounting policy, once a year.
Adopted methods of estimating the fair value are disclosed in additional explanatory note. In particular, the property of the Almond hotel is measured by use of method from level 3 of the fair value hierarchy (income method), due to the signed lease agreement. Other properties are measured by use of methods from level 2 of the fair value hierarchy (comparative methods, residual methods, etc.). Derivatives are measured by use of fair value measurement prepared by a professional entity by use of methods from the 2nd level of the fair value hierarchy.
In the financial year, there were no transfers between levels 1 and 2 of the fair value hierarchy.

Adopted methods of estimation of a fair value and significant input data are disclosed in additional explanatory notes to the financial statement.

Due to the nature of financial assets and liabilities, the Issuer's Group does not identify premises for which there would be a significant difference between their balance sheet value and fair value. In particular, significant financial liabilities bear interest on an arm's length basis, with the use of a variable interest rate. As regards financial assets, there are mainly receivables with a maturity of up to 1 year and cash. Issuer's Group does not prepare fair value measurements of financial assets and liabilities for management purposes.

9. Financial risk management

In operations of the Capital Group DEKPOL S.A. the following types of financial risks are relevant:

•**interest rate risk** - as part of its operations, the Group is exposed to interest rate risk. The Group has financial liabilities, the financial cost of which is calculated on the basis of a variable WIBOR base interest rate and a fixed margin. An increase in the base rate by 0.5 pp would cause an increase in financial costs by approx. 1482 thousand. PLN, assuming that the balance of liabilities bearing a fixed rate would remain unchanged throughout the financial year.

•**exchange rate risk and risk of changes in raw material prices** - due to a further increase in the scale of operations in foreign currencies, the Group is exposed to currency risk from concluded transactions. Such risk arises as a result of sales or purchases made by the Group in currencies other than the national currency. If as at 31/12/2019 the EUR exchange rate was higher or lower by 3%, then the Group's financial assets would be higher or lower by PLN 945,000. PLN and financial liabilities higher or lower by 471 thousand of PLN - as a result of negative or positive exchange rate differences resulting from the conversion of receivables, loans granted, cash accumulated on bank accounts and trade liabilities. In order to limit the risk of exchange rate fluctuations, in the currency settlements related to export sales and imported purchases, the Group largely uses natural hedging, which results in balancing currency flows. During short-term and identifiable imbalances in currency flows, the Group will use currency derivatives to unrealistically hedge future cash flows.

•**credit risk** – the Group is exposed to credit risk, understood as the risk that debtors will fail to meet their obligations and thus cause the Group to incur losses. Due to the ongoing monitoring of receivables and taking debt collection activities, the Group's exposure to the risk of bad debts is limited. There is no risk of bad debts in sales of residential and service premises, as their sale is made in advance. On the other hand, in case of construction services, the Group receives partial advances for services rendered and settles construction works in stages in accordance with schedules.

For trade receivables and contract assets, a simplified version of the model was used, assuming a loss calculation for the entire life of the instrument.

The Group assumes that the receivable is lost (the obligation will not be performed), when the receivable is overdue more than 365 days, has expired, the debtor has been declared bankrupt or the vindication has failed. The items for which the default by the debtor has been determined as defined above, are treated by the Group as financial assets impaired due to credit risk. If a written-off receivable is recovered as a result of debt collection activities, the write-off is released. The write-off is used when it is no longer possible to legally or actually recover the receivables.

Specification of changes in allowances for expected losses is presented in the table below:

Data in thousands of PLN	**2019**	**2018**
Write-off for expected credit losses at the beginning of the period	6.862	1.447
Changes during the period	-1.480	5.415
Situation at the end of the period	5.382	6.862

Within trade receivables, which are the most important class of assets exposed to credit risk, and in case of assets under contracts with customers, in the opinion of Management Board of the parent company, the Group is not exposed to excessive credit risk in connection with a single significant contractor. At the end of 2018, there were receivables from two contractors representing more than 5% of balance of trade receivables, contracts with customers and retained deposits. As a consequence, write-downs are estimated on a collective basis, and receivables are grouped by period of past due date. The write-off estimate is based primarily on historical past due dates and the link between arrears and actual repayments from the last 3 years. The model does not use information of a macroeconomic nature. Significant changes in gross carrying amount of receivables change the amount of allowance due to the fact that they constitute the basis for determining allowance for expected credit losses, where the interest is determined on the basis of historical data.
Credit risk related to bank deposits is considered to be insignificant as the Group deposits its funds in banks with good and stable financial standing. Similarly, the credit risk of public law receivables is considered insignificant.
Due to adoption of a simplified method of estimating write-offs due to expected credit losses and low credit risk related to other financial assets, the Group does not determine whether the credit risk related to financial instruments has increased significantly since initial recognition (instruments that require such an analysis are not significant for financial statements).

•**Liquidity risk** – The Group is exposed to liquidity risk understood as the risk of losing the ability to settle liabilities on specified dates. The risk results from potential restriction of access to financial markets, which may result in inability to obtain new financing or refinance its debt. In addition, the risk relates to a potential breach of covenants of credit agreements or terms of bond issue, which may result in immediate maturity of liabilities.
The Group enters into loan agreements to finance investments with various banks. Repayment dates of subsequent installments are adjusted to expected proceeds from sales of individual investments. Moreover, the Group issues bonds.
The Group manages liquidity risk by monitoring of payment deadlines and demand for cash to service short-term payments (current transactions) and long-term demand for cash based on cash flow forecasts updated on a quarterly basis. Demand for cash is compared with available sources of obtaining funds (including in particular by assessing ability to obtain financing in form of loans and bonds, the possibility of releasing funds from escrow accounts). Maturity dates of material assets and liabilities are presented in additional notes to the annual financial statement.

10. Important assessments and judgements

The estimates of the Management Board of DEKPOL S.A., affecting the values disclosed in the financial statements, mainly relate to:

- anticipated period of economic usability of fixed assets and intangible assets,
- write-downs on assets, including, among others, assets held for sale,
- progress of works determined for the purposes of settlement of construction service contracts together with specification of the planned margin realized on the contract,
- discounts, projected salary increases and actuarial assumptions used in calculating provisions for retirement and pension benefits,
- fair value of investment property,
- future tax results taken into account when determining deferred tax assets.

The methodology used to determine the estimated values is based on the best knowledge of the Company's Management Board and is consistent with the requirements of MSSF. The methodology for determining accounting estimates is applied consistently to the last reporting period, except for the methodology for estimating revaluation write-offs for credit losses related to trade receivables, in accordance with the methodology specified in MSSF 15 "Revenue from contracts with clients". In the opinion of the Management Board, the application of a new methodology for estimating receivables write-offs would not significantly affect the comparative data. Changes to revaluation write-offs are presented in the further part of the information in additional explanatory notes to individual asset items.

Additional disclosures regarding valuation principles

Average depreciation rates result from tables presenting calculation of depreciation for the period and gross (initial) value for each category of fixed assets.

Fixed assets and intangible assets are depreciated in the following periods:

Group	Period	Annual depreciation rate
Buildings and structures	40 years	2,5%
Machines and devices	2 - 10 years	10-50%
Means of transport	3 - 7 years	14-33%
Other fixed assets	1 - 10 years	10-100%
Licenses and computer software	2 - 5 years	20-50%
Other intangible assets	5 years	20%

At the consolidated level, there are no intangible assets with an indefinite useful time.
In the period covering historical and financial data, here were no leaseback transactions.

<u>Leases – the Group as the lessor</u>

Issuer's Group acts as a lessor in terms of property rental agreements, in particular of the Almond hotel and premises located in Wrocław at ul. Braniborska, presented as "investment properties for rent". The lease of these properties is operational. With regards to properties subject to operating lease agreements, the Issuer's Group retains full ownership rights, giving right to use the property to tenants on terms specified in agreements. In addition, the Group

owns investment properties that are not subject to operating lease agreements, presented as "land not leased out". The Group is not a lessor under finance lease agreements.
Specification of revenues from operating lease agreements:

Data in thousands of PLN	**2019**	**2018**
Revenues from operational lease	6.042	7.101
- including variable lease payments that are not index or rate dependent	0	0

Specification of future, fixed lease payments resulting from concluded operating lease agreements (without variable payments) - resulting from the Almond hotel rental agreement. In addition, the Group, in accordance with concluded agreement, will receive variable fees, the amount of which depends on turnover of catering and hotel.

Data in thousands of PLN	**2020**	**2021**	**2022**	**2023**	**2024**	**Subsequent years until 2032**
Undiscounted lease payments to be received in the following years	3.944	4.078	4.159	4.243	4.327	37 884

Leases – The Group as the lessee
The Group is a party to financial and operating lease agreements. The leased assets are used in Group's operating business activities. The Group uses simplifications with regard to short-term leases (up to 12 months) and low-value leases (value of the leased asset below PLN 4,000 thousand), without recognizing them as the right to use assets. This type of lease is not essential in the Group's operations.
In period covered by historical data, the Issuer's Group was not a party to a leaseback or sublease agreement, and there were no variable lease payments.
Lease agreements do not include an extension or termination option, a residual value guarantee or covenants. There are no open leases which the Group would be obligated to as a lessee.
Additional disclosures regarding leases are presented below:

Data in thousands of PLN	**2019**	**2018**
Machines and equipment under financial lease (net)	11.607	12.260
Means of transport under financial lease (net)	5.966	6.642
Other fixed assets under finance lease (net)	1.119	560

Asset use rights recognized as means of transport (net)	431	546
Depreciation of right to use assets recognized as a means of transport during period	115	29
Increases in rights to use assets during period	0	0
Interest costs on lease liabilities	381	237